No. 17-1657

IN THE

Supreme Court of the United States

MISSION PRODUCT HOLDINGS, INC.,

Petitioner,

v.

TEMPNOLOGY, LLC, N/K/A OLD COLD LLC,

Respondent.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

BRIEF OF LAW PROFESSORS AS *AMICI CURIAE* SUPPORTING PETITIONER

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INTEREST OF *AMICI CURIAE*[1]

Amici, whose names and affiliations are set forth in alphabetical order in the attached Appendix, are law professors who study the United States bankruptcy system. They write solely to share their disinterested views regarding the important question of federal bankruptcy law presented in this case. To the best of their knowledge, no amicus has any financial interest in the outcome of this case.

SUMMARY OF ARGUMENT

The First Circuit's decision below inexplicably resuscitates a long-rejected decision—*Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985)—that allowed intellectual property licensors to exploit a bankruptcy filing to unilaterally revoke the rights of their licensees. *Lubrizol* was wrong when the Fourth Circuit decided it: The decision relied on a misreading of the statute; it has been overruled on its facts by Congress; and it has been consistently rejected by both bankruptcy scholars and, until the decision below, the one other court of appeals to address the issue. *See Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC*, 686 F.3d 372, 377 (7th Cir. 2012) (Easterbrook, J.).

We write to call the court's attention to the existence of a remarkable consensus among legal scholars, documented below, that rejection of a contract under

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[1] Pursuant to Supreme Court Rule 37, counsel of record for petitioner and respondent have consented in writing to the filing of this brief. No counsel for a party authored this brief in whole or in part. No person other than amici and their counsel, and no party or counsel for a party, made a monetary contribution intended to fund the preparation or submission of this brief.

Section 365(a) of the Bankruptcy Code constitutes a breach of the relevant license agreement and not a rescission. *See infra* pp. 10-15 & n.8. Section 365(g) says exactly that. The consequences of this breach are determined by applicable non-bankruptcy law, and not a bankruptcy-specific rule. This *amicus* brief urges this Court to recognize this scholarly consensus and resolve the circuit split, created by the decision below, in favor of the Seventh Circuit's decision in *Sunbeam*.

The First Circuit's decision incorrectly allows a debtor/licensor to unilaterally rescind a trademark license by "rejecting" the agreement under Section 365(a) of the Bankruptcy Code. *See* 11 U.S.C. §365. This holding fundamentally misunderstands the effect of "rejection" and would allow debtor/licensors to unwind a variety of settled transfers of property rights. Under the First Circuit's rule, a debtor/licensor could use the power to reject to destroy a licensee's business or hold the licensee hostage, forcing it to pay twice for a license it has already purchased. This unjust result would be the unfortunate and natural consequence of treating the power to "reject" a contract as the power to "avoid" or claw back a transfer of property.

To the contrary, the power to "reject" a contract under Section 365 serves a crucial but more modest purpose: It allows the trustee to decline to perform a contract, where to do so would be burdensome on the estate and harmful to other creditors. Insolvent debtors in bankruptcy are, by definition, unable to satisfy all of their contractual obligations. Where the debtor is a party to a contract under which the debtor's unperformed contractual obligations are intertwined with conditional obligations of the non-debtor, the allocation of those rights and obligations is handled by

Section 365. Section 365(a) gives the debtor the choice to breach ("reject") or perform ("assume"). If the debtor elects to reject then, under Section 365(g), "the rejection of an executory contract ... of the debtor constitutes a breach of such contract." That formal act of breach allows the non-debtor to make a pre-petition claim for damages that can receive a distribution through the ordinary claims allowance process and is then discharged. Section 365 does nothing more than that. The power to reject is, simply, the power to breach and convert the counterparty's contractual claim for expectation damages into a prepetition claim in bankruptcy.

It has long been recognized that the trustee's power to reject is simply a power to breach, not a power to avoid settled property rights. *See, e.g.*, Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 247-55 (1989) (Westbrook); Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection,"* 59 U. Colo. L. Rev. 845, 855 (1988) (Andrew).[2] This is the view adopted, correctly, by the Seventh Circuit in *Sunbeam*. The precise consequences of the pre-petition "breach" are not determined by bankruptcy law. They are

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[2] These articles are over twenty years old, but their influence has persisted, and their underlying insights about the meaning of 11 U.S.C. §365 remain valid. *See* note 8 *infra*. Of course, there are debates about Section 365 that continue to this day. *See* John A.E. Pottow, *A New Approach to Executory Contracts*, 96 Tex. L. Rev. 1437 (2018); Jay Lawrence Westbrook & Kelsi Stayart White, *The Demystification of Contracts in Bankruptcy*, 91 Am. Bankr. L.J. 481, 532-33 (2017) (Westbrook & White). But the question of whether Section 365(g) means what it says is not one of them.

based, instead, on the parties' applicable non-bankruptcy rights under their agreement and principles of contract and intellectual property law. As *Sunbeam* noted, however, *see* 636 F.3d at 376, outside bankruptcy there is no readily apparent legal principle under which a *licensor's* breach of contract would limit a *licensee's* ability to exercise rights already granted to it under that contract.

The point is intuitive. If a seller of goods delivers goods pursuant to contract, but breaches an ongoing service obligation contained in the contract of sale, the failure to perform would not "unsell" the goods, or give rise to a right to take them back. Section 365(g) specifies that, because rejection is merely a breach, bankruptcy does not change this result. The same principle applies to trademark licenses. A trademark license grants the licensee the right to use the trademark under certain conditions, and a defense against an infringement lawsuit brought by anyone (including nonparties) for any covered use. A debtor/licensor may have other ongoing obligations (akin to the ongoing service contract above), but if the licensor fails to perform its obligations under the license ("breaches") or rejects the license in bankruptcy, the license will nonetheless continue to operate as a defense for the nonbreaching licensee against any claim of infringement.

The Seventh Circuit's decision in *Sunbeam* adheres to this principle, while the First Circuit's decision below effectively creates (or recreates) a novel, bankruptcy-specific form of "statutory breach" that terminates the trademark license—immediately transforming an innocent licensee into an infringer. *See* Pet. App. 10a. Nothing in contract or trademark law gives a special right to the grantor of a license to

"vaporize" that license in bankruptcy. *See Sunbeam*, 686 F.3d at 377. In fact, that would create an extremely harsh result: A franchisee that relies on its trademark license to do business might be forced to stop doing business immediately, subject to a reorganizing debtor's extortionate demand for a fresh payment for a right previously conveyed.

Such a result is not only inconsistent with the plain text of Section 365(g), but it also violates the cardinal principle, stated in *Butner v. United States*, 440 U.S. 48, 55 (1979), that "[p]roperty interests are created and defined by [applicable non-bankruptcy law] unless some federal interest requires a different result." In this case, not only is this bankruptcy-specific rule harsh, it defeats the settled commercial expectations of the licensee, and there is no discernible bankruptcy-policy reason for it. The First Circuit's bankruptcy-specific rule should thus be rejected, and the decision below reversed.

ARGUMENT

The Decision Below Fundamentally Misunderstands The Role Of Rejection Under Section 365 In The Bankruptcy System.

Section 365 operates within, and furthers, an architectural principle of the Bankruptcy Code: Bankruptcy discharges unsecured debt claims, but respects pre-bankruptcy property rights. Upon discharge in bankruptcy, enforcement of most pre-petition personal

obligations of the debtor for rights of payment is enjoined. *See* 11 U.S.C. §524.[3] As a general matter, however, this leaves non-debtor interests in property undisturbed. For instance, a creditor's security interest in the debtor's property is respected through the priority of secured claims and the right to adequate protection. 11 U.S.C. §§361, 362(d), 506, 507(b).

The Bankruptcy Code does contain a number of specific "avoidance" powers that allow the trustee to recapture property transferred by the debtor pre-petition. These powers include the power to avoid unperfected transfers, 11 U.S.C. §544(a), the power to avoid preferences, 11 U.S.C. §547, and the power to avoid fraudulent conveyances, 11 U.S.C. §544(b) and §548. Note that these powers are all located in Subchapter III of Chapter 5 of the Code, the subchapter that defines the estate. By contrast, the power to "assume or reject" under Section 365 is in Subchapter IV of Chapter 3 of the Bankruptcy Code, which deals with the administrative powers of the trustee—here the power to breach or perform a contract. When Congress meant to create a "clawback" power, it knew how to label it, and where to put it.

Section 365 is not one of those powers. It grants the debtor the power to decide whether to perform or breach a prepetition contract and determines how the resulting claim will be handled in the bankruptcy. The other consequences of breach are determined by applicable non-bankruptcy law. Far from imposing a bankruptcy-specific rule about the effects of "rejection," all

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[3] As will be discussed later, by contrast, the obligations of third parties owed to the debtor are assets that become property of the estate. 11 U.S.C. §541.

Section 365 does is label a rejection a breach. Treating the claim for expectation damages as a prepetition claim in bankruptcy ensures that the contractual counterparty is treated in bankruptcy just like any other creditor to whom the debtor's pre-bankruptcy promise (such as a promise to pay money) is broken. Beyond that, the Bankruptcy Code leaves the consequences of the breach to applicable non-bankruptcy law.

A. The Rejection of a Contract Under Section 365(a) Is a Breach.

Insolvent debtors in bankruptcy are, by definition, unable to satisfy all of their obligations. The Bankruptcy Code must thus determine the consequences of claims for breach of contract, whether in liquidation or reorganization. Where the obligation is the payment of a debt, that question is answered by the claims allowance process. 11 U.S.C. §§101(5), 501, 502, 503, 506, 507. Where contract obligations of the debtor ("claims" of creditors) are intertwined with conditional obligations of non-debtors ("assets"), the allocation of those rights and obligations is handled by Section 365.

The term "rejection," is forward-looking; it effectuates the debtor's decision not to perform its future obligations under contract. As such, and by the terms of the statute, rejection is equivalent to a contractual breach—nothing more, nothing less. As a general matter, Section 365 gives the debtor the choice between performance and breach. If the debtor elects to breach (*i.e.*, "rejects" the contract), Section 365(g) treats that breach as a pre-petition claim for damages that can be discharged: "[T]he rejection of an executory contract ... of the debtor constitutes a breach of

such contract." 11 U.S.C. §365(g). Alternatively, where the debtor wishes to bind the non-debtor and receive the benefit of its remaining performance, the debtor can reaffirm its own obligations (*i.e.*, "assume" the contract) and perform. This allows the debtor to preserve valuable contracts for the benefit of the bankruptcy estate. Thus, rejection is a breach while assumption is a reaffirmation of the obligation to perform. Neither act disturbs or unwinds any previous performance under the contract. Nor does it reclaim any value conferred or any property already transferred.

This case involves an agreement that includes a trademark license—the contractual grant of a right to sell trademarked goods under the terms of that license. The debtor/licensor rejected that agreement. The question is whether the rejection deprived the licensee of the right it had already been granted to sell trademarked goods, or, put another way, whether it revoked the licensee's defense against any claim of infringement by any other party. The key point relevant to that question is that the debtor/licensor's rejection of a license agreement constitutes a failure to perform *by the debtor*—a breach of the *licensor's* obligations under the agreement, and nothing more. It is not a revocation or rescission of the contract. It does not retroactively invalidate either the grant of the license or the resulting defense the licensee holds against an infringement action by anyone else.

Simple examples illustrate the importance of this distinction. Consider a solvent merchant who sells a laptop along with warranties and a service contract, delivers the laptop, and then breaches by failing to

perform the ongoing warranties and/or service obligations. The breach would not "unsell" the laptop. Similarly, if the seller were to file for bankruptcy, rejection of the contract by the seller/debtor would free the debtor of its warranty obligations under the service contract (while creating a pre-petition claim for damages by the purchaser), but it would not undo the sale and entitle the debtor to get the laptop back.

A trademark license similarly grants the licensee the right to use the trademark under certain conditions and a defense against an infringement lawsuit brought by anyone (including non-parties) for any covered use.[4] The licensor may have other ongoing obligations, too—akin to the service and warranty obligations above—but if the licensor fails to perform on those obligations under the license (*i.e.*, "breaches"), the license will nonetheless continue to operate as a defense against any claim of infringement, provided that the licensee continues to live up to its own obligations under the license.

The same result is specified by Section 365(g) if the breach occurs through rejection in the bankruptcy context; the debtor/licensor's rejection is simply given effect as a breach of the debtor's obligations under the license agreement as of the bankruptcy petition date. This assures that the licensee will have an allowed claim that receives any *pro rata* distribution, along with other unsecured creditors, but it most certainly does not retract the grant of the license. As with the laptop, the effects of the licensor's breach on the licensee's rights and obligations are determined under non-bankruptcy law and not altered by the Bankruptcy

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[4] A defense against a claim of counterfeiting, for example.

Code. That simple, intuitive conclusion is the sole import of Section 365(g).

That conclusion follows from the principle, reflected in this Court's decision in *Butner v. United States*, 440 U.S. 48, 55 (1979), that "[p]roperty interests are created and defined by [applicable non-bankruptcy law] unless some federal interest requires a different result." Indeed, as the Petitioner explains, Pet. Br. 22-29, it is a foundational principle of bankruptcy law that the property rights that come into the bankruptcy estate in the first instance are the "bundle of sticks" that the debtor held prior to the bankruptcy. *See Board of Trade of City of Chi. v. Johnson*, 264 U.S. 1 (1924). It does not include sticks transferred prior to bankruptcy, and rejection does not operate to return those sticks to the bundle.[5]

B. There Is Academic Consensus That *Lubrizol* Was Wrongly Decided.

In a number of decided cases, however, the interaction between the debtor's future contract obligations and the settled transfers of rights to non-debtors have become improperly entangled. The result has been case law that is confusing at best and misguided at worst. This case implicates perhaps the most infamous example of both confusion and error, *Lubrizol*

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[5] Once the effect of breach has been determined under non-bankruptcy law, the treatment of any breach claim must be determined under Sections 502, 506, and 507. Whether the breach gives rise to a claim that is dischargeable would be considered under Section 101(5). And, the avoidability of any property rights conveyed prepetition would be determined under Sections 544, 545, 546, 547, 548 and 550. Other principles of bankruptcy law may come into play as well.

Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985). Indeed, a leading treatise calls *Lubrizol*, "the king of all bad executory contract cases."[6] In that case, the Fourth Circuit ignored the text of Section 365(g) and concluded that rejection of a patent license allowed the debtor/licensor to revoke the right to use a patented process, even if the non-debtor/licensee continued paying under the contract. *Id.* at 1047-48. This rule had the harsh effect of turning a licensee into an infringer, subject to the severe remedies provided for patent infringement, or needing to sign a fresh license to continue a line of business it had already paid to pursue.

Congress quickly acted to correct the error by enacting 11 U.S.C. §365(n) to protect patent and copyright licensees. That subsection reaffirmed the foundational rule that rejection does not terminate a contract counterparty's ability to use property already granted to it under the contract, and addressed the principal types of intellectual property covered by the *Lubrizol* precedent. Section 365(n) made it clear that rejection pursuant to Section 365 could not unmake property rights in technology licenses involving patents and copyrights. Instead, upon rejection by the debtor/licensor, the licensee was given the option to treat the license as terminated or to continue to use the licensed intellectual property and pay royalties (less any damages for the licensor's breach).[7]

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[6] Charles Tabb, *The Law of Bankruptcy* 814 (4th ed. 2016).

[7] It is important to note here that this is precisely the result that would obtain if a debtor were to breach a contract under state law. If the non-debtor's performance were conditioned on the debtor's continuing to perform, the non-debtor would have the

Congress did not expressly specify this same result for breaches of trademark licenses, as trademark rights are not listed in the definition of "intellectual property" contained in 11 U.S.C. §101(35A). But *Lubrizol* did not involve trademarks, so there was no immediate need to act on trademarks. Crucially, Congress reaffirmed the background rule stated in Section 365(g) itself, and therefore the basic principles applicable to other contracts—trademark licenses included.

The Seventh Circuit recognized as much in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372, 377 (7th Cir. 2012) (Easterbrook, J.). That court affirmed the view that *Lubrizol* had been wrongly decided, and that rejection under Section 365(g) is merely a pre-petition breach. *Sunbeam*, like this case, involved rejection of a trademark license. *Id.* at 374-75. There the court held that, even though Section 365(n) does not mention trademark, Section 365(g) makes it clear that while rejection frees the debtor/licensor of its *own* obligations under the trademark license, it does not reach back to revoke the rights of the licensee to continue to use the trademark pursuant to, and subject to, the terms of the license. *Id.* at 376-77.

The *Sunbeam* court's rejection of *Lubrizol* is consistent with the view of virtually every scholar who has opined on the topic: The power to reject does not give the debtor the unilateral right to take back a property right that has already been transferred. There is a substantial academic literature on this

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option to treat the contract as repudiated, and discontinue its own performance.

point, and an unusual scholarly consensus that predates the Seventh Circuit's *Sunbeam* decision. That consensus remains in place to this day.[8]

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[8] The articles reviewed are collected here: Andrew, *supra*, at 881, 921, 923; Westbrook, *supra*, at 231, 324; J. Dianne Brinson, *Software Distribution Agreements and Bankruptcy: The Licensor's Perspective*, 64 Wash. L. Rev. 499, 513-14 (1989); John J. Fry, *The Rejection of Executory Contracts Under the Intellectual Property Bankruptcy Protection Act of 1988*, 37 Clev. St. L. Rev. 621, 625-26 (1989); Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. Colo. L. Rev. 1, 8 (1991); Robert T. Canavan, *Unsolved Mysteries of Section 365(n) – When a Bankrupt Technology Licensor Rejects an Agreement Granting Rights to Future Improvements*, 21 Seton Hall L. Rev. 800, 806 (1991); Scott A. Steinberg & Michael A. Gerber, *Software Licensing: Protecting Intellectual Property in Bankruptcy*, 6 J. Bankr. L. & Prac. 535, 539 (1997); Alison J. Winick, *Can Superstars Really Sing the Blues? An Argument for the Adoption of an Undue Hardship Standard When Considering Rejection of Executory Personal Services Contracts in Bankruptcy*, 63 Brook. L. Rev. 409, 420 (1997); Shubha Ghosh, *The Morphing of Property Rules and Liability Rules: An Intellectual Property Optimist Examines Article 9 and Bankruptcy*, 8 Fordham Intell. Prop. Media & Ent. L.J. 99, 146, 149 (1997); Richard M. Cieri, Neil P. Olack & Joseph M. Witalec, *Protecting Technology and Intellectual Property Rights When a Debtor Infringes on Those Rights*, 8 Am. Bankr. Inst. L. Rev. 349, 355-56 (2000); Xuan-Thao N. Nguyen, *Bankrupting Trademarks*, 37 U.C. Davis L. Rev. 1267, 1286-87 (2004); Grant Hanessian, Michael A. Stoker & Joseph Samet, *When Worlds Collide: Intellectual Property and Arbitration Rights in Bankruptcy Cases*, 59-Oct. Disp. Resol. J. 27, 28-29 (2004); Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 Berkeley Tech. L.J. 733, 767-68 (2007); Jonathan C. Balfus, *Exide Inside Out: New Third Circuit Decision Preserves Trademark Licensee's Rights Following Licensor's Rejection Under Bankruptcy Code § 365*, 31 Cal. Bankr. J. 523, 525 (2010); Ron E. Meisler, Elaine D. Ziff, Tracy C. Gardner & Carl T. Tullson, *Rejection of Intellectual*

Shortly after *Lubrizol* was decided, professors Westbrook and Andrew wrote a series of influential articles that explained why, as a matter of statutory interpretation, history, and policy, the effect of rejection is simply to create a breach and to make that breach effective as of the moment before the petition. *See* Westbrook, *supra*; Andrew, *supra*. Section 365(g) says so, in so many words. While Westbrook and Andrew each took different routes to this result, they agreed that once a debtor files for bankruptcy, the trustee or debtor-in-possession has the obligation to decide whether it would be more beneficial to the estate for

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Property License Agreements Under Section 365(n) of the Bankruptcy Code: Still Hazy After All These Years, 19 J. Bankr. L. & Prac. 2 Art. 4, at 1 (2010); Bradley Scott Friedman, *Taking the Intellectual Out of Intellectual Property Licenses Under Section 365 of the Bankruptcy Code*, 20 J. Bankr. L. & Prac. 6 Art. 3, at 4 (2011); Jonathan C. Bolton & Martin S. Loui, *Intellectual Property Considerations in Times of Financial Distress*, 17-Feb. Haw. B.J. 4, 6 (2013); Zachary S. McKay, *A Dramatic Misconception: Why the Trademark Licensee Must Be Granted the Power to Overcome the Trustee in Bankruptcy's 11 U.S.C. § 365 Rejection*, 54 S. Tex. L. Rev. 747, 774-75 (2013); Peter M. Gilhuly, Kimberly A. Posin & Ted A. Dillman, *Intellectually Bankrupt?: The Comprehensive Guide to Navigating IP Issues in Chapter 11*, 21 Am. Bankr. Inst. L. Rev. 1, 36-37 (2013); Alan N. Resnick, Sunbeam *Offers a Ray of Sunshine for the Licensee When a Licensor Rejects a Trademark License Agreement in Bankruptcy*, 66 SMU L. Rev. 817, 821, 839 (2013); Tyler S. Dischinger, *Problems in the Code, Section 365(n): A Call for Clarity*, 32-8 Am. Bankr. Inst. J. 50, 51 (2013); Jason Enright, *The Bankruptcy Code's Rejection of Trademark Under § 365(n) and the Motley Consequences When a Debtor Rejects a High-Tech Trademark License*, 1 Bus. & Bankr. L.J. 75, 84-85 (2014); Peter C. Blain, *Trademarks and Distribution Rights in Bankruptcy: The Dissonance Continues*, 29 No. 3 Intell. Prop. & Tech. L.J. 10, 12-13 (201); Westbrook & White, *supra*, at 554.

the debtor to perform or breach a contract. *See* Westbrook, *supra*; Andrew, *supra*. This is true as a simple matter of logic.[9] As Andrew puts it, "[r]ejection of the contract by the estate—the estate's decision not to assume—is not a rescission or cancellation of the contract. It is merely the estate's decision not to become obligated on it." Andrew, *supra*, at 921 (footnote omitted). Or, as Westbrook (more functionally) puts it, the bankruptcy terms "assumption and rejection represent the *decision* to perform or breach."[10]

The question then becomes: what are the consequence of that failure to perform? If the debtor "rejects," any claim for damages from the resulting breach is treated as a pre-petition claim.[11] The claimant then shares in any distribution to creditors, through the ordinary claims-administration process, *see* 11 U.S.C. §502, and the claim is discharged, *see id.*

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[9] Indeed, a recent article argues that, as a practical matter, Section 365 might not even be necessary to administer the consequences of rejection. *See* John A.E. Pottow, *A New Approach to Executory Contracts*, 96 Tex. L. Rev. 1437 (2018). This Court need not go that far, but the argument illustrates the extent to which the *Lubrizol* approach deviates from the underlying principles of the Bankruptcy Code.

[10] Westbrook, *supra*, at 231.

[11] 11 U.S.C. §365(g). Rejection is the estate's determination "not to assume the contract or lease, and its occurrence triggers the ancillary rule that a 'breach' of the debtor's obligations will be deemed to have occurred as of the commencement of bankruptcy, thus permitting a claim by the non-debtor." Andrew, *supra*, at 881; *see also* Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. Colo. L. Rev. 1, 8 (1991) ("Rejection has the consequence of creating a deemed breach of the contract as of the date of bankruptcy so that there will be no question but that the non-debtor party has a claim" for breach of contract, and "whether the contract is 'executory' or not, the result" of rejection creates a claim against the estate.).

§524. Westbrook and Andrew also both agree that any further consequences of the breach should be determined by applicable *non*-bankruptcy law (principally, state contract law). This is why *Lubrizol* was wrongly decided; it made the consequence of rejection a bankruptcy-specific question. Andrew, *supra*, at 916-18; Westbrook, *supra*, at 305-11.

A critical consequence of Westbrook and Andrew's analysis is that, but for *Lubrizol*, Section 365(n) would have been entirely unnecessary. Since rejection is breach, not revocation, rejection would not rescind the license. As Andrew and Westbrook noted, there is no federal bankruptcy law answer to the question of what happens to a license when the debtor breaches. Instead, one would look to applicable non-bankruptcy law—to the law of trademark and contract and to the terms of the license—to determine the consequences of the licensor's failure to perform its ongoing obligations. In simple terms, the consequences of breaching a trademark license are ordinary questions of contract interpretation, not federal bankruptcy law. Congress enacted Section 365(n) to correct *Lubrizol*'s misunderstanding of that basic principle for copyright and patent—the property covered by the *Lubrizol* precedent. Trademark licensees are not included in that provision, but neither were they covered by *Lubrizol*; legislative correction was, therefore, unnecessary. In sum, the basic principle, stated in Section 365(g) that rejection is breach—reaffirmed in Section 365(n)—means that rejection does not terminate or rescind a trademark license any more than any other type of intellectual property license.

The remarkable thing is that in the twenty years since Westbrook and Andrew wrote, there has been

virtually no scholarly disagreement on this point. The literature is collected above in note 8, but the point is that, with the exception of one article cited by the First Circuit, nobody disagrees. *See* James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 Bus. Law. 739, 771-76 (2013).[12] For historical reasons articulated by Andrew and statutory and policy reasons articulated by Westbrook, rejection simply constitutes a breach—nothing more, and certainly not a revocation of the entire contract.

As the foregoing suggests, the Bankruptcy Appellate Panel (BAP) correctly decided this issue before the First Circuit's decision created the split this Court needs to resolve. The leading scholars have recognized as much. Recently, Professor Westbrook specifically addressed this case, and wrote approvingly of the BAP's opinion:

> [The BAP's opinion in] *In re Tempnology LLC*, supports the reasoning behind our approach. ... The [BAP] concluded that while trademarks and logos could not be retained as intellectual property under section 365(n) of the Code, the bankruptcy court erred in concluding that Mission had no rights in the trademarks and logos after rejection. Rejection did

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[12] There, the authors principally argue that the Andrew article ought to be disregarded because it is old. They then argue that trademarks are different from other forms of IP, which nobody disputes. They make no argument, however, as to why their trademark-specific concerns are best addressed by a *bankruptcy*-specific rule, let alone why they are well served by the *Lubrizol* approach. If Congress intended a breach to operate as the rescission of a trademark license, that would be more appropriately accomplished under trademark law, not as a bankruptcy-specific rule of rescission.

> not vaporize these rights that were not addressed by section 365(n). Instead, "[w]hatever postrejection rights Mission retained in the Debtor's trademark and logo are governed by the terms of the Agreement and non-bankruptcy law." As we might put it, breach of contract (rejection's effect under section 365(g)) would not somehow entitle the debtor to void its original grant of rights under nonbankruptcy law, although it did permit the avoidance of various ongoing obligations.

Westbrook & White, *supra*, at 532-33 (footnotes omitted).

The *Sunbeam* decision similarly recognized that rejection does not claw back a non-debtor's already transferred property rights. In contrast, *Lubrizol* and the First Circuit's decision in this case create an avoidance power where there was no congressional intent to do so.

C. The First Circuit's Approach Should Be Rejected.

Notwithstanding the foregoing, Congress's omission of a specific rule governing trademarks from Section 365(n) has led to confusion in the lower courts—and now a clear circuit split—about the continued vitality of *Lubrizol* for trademarks.

Some lower courts had concluded that, because trademarks were omitted from Section 101(35A) and hence lie beyond the scope of Section 365(n), the rule of *Lubrizol* continued to control cases involving the rejection of trademark licenses. *See In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003); *see also In re Old Carco LLC*, 406 B.R. 180, 211

(Bankr. S.D.N.Y. 2009); *In re Centura Software Corp.*, 281 B.R. 660, 668-74 (Bankr. N.D. Cal. 2002); *In re Blackstone Potato Chip Co.*, 109 B.R. 557, 560 (Bankr. D.R.I. 1990). This approach is surprising because, even for the property rights specifically at issue in *Lubrizol*, that precedent never controlled outside the Fourth Circuit.

Meanwhile, other lower courts had correctly focused on the effect of a breach under trademark law, leaving the non-debtor licensees' trademark rights in place. *In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 772 (Bankr. D.N.J. 2014). These lower courts were following the Seventh Circuit in *Sunbeam,* which declined to extend *Lubrizol*'s reasoning to cover trademarks. *Sunbeam*, 686 F.3d at 375-77. The latter approach should now be definitively adopted by this Court.

Notably, while it is possible to take the wrong view from the fact that trademarks were excluded from the effect of Section 365(n), the legislative history supports the correct approach—the one taken in *Sunbeam*. Congress noted that *Lubrizol* did not apply to trademarks, and therefore did not overrule it. But that is not because it thought that it might be wise to create a bankruptcy-specific rule like *Lubrizol*'s for trademarks or any other rights. Instead, when Congress overruled *Lubrizol*, it expressly left the question of the effect of breach *under trademark law* to be fleshed out in the courts. It would be fairly perverse to read Congress's decision *not* to create or endorse any bankruptcy-specific rule as in fact endorsing one.

The Senate Report says this explicitly:

> [T]he bill does not address the rejection of executory trademark, trade name or service

> mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court and others, ... such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

S. Rep. No. 100-505, at 5 (1988).

It is important to understand the logic behind this move. As the Senate Report notes, trademarks, trade names and service marks raise similar issues to other forms of intellectual property, but also present important differences that arise from the association of the trademark with the debtor/licensor's goodwill. So Congress left it to courts to apply Section 365(g) and then determine the effect of the "breach" that a rejection creates—in the context of individual contractual agreements, applying the *non*-bankruptcy law of trademark where cases and commentary are devoted to the special needs of such contracts. Put another way, Congress wanted this area of the law to continue to develop as a matter of *non*-bankruptcy law, and so declined to supplant the governing substantive law with a uniform bankruptcy answer. Reading Section 365(n)'s omission of trademarks as *supplying* a uniform rule of revocability for trademark licenses not

only overreads an omission, it gets the point of that omission exactly backwards.[13]

As the BAP found below, and the Seventh Circuit found in *Sunbeam*, a contractual breach does not vaporize a trademark license, either as a matter or trademark or contract law. Accordingly, neither does rejection under Section 365.

In sum, the disagreement between the circuits admits of a fairly straightforward answer—indeed one that has been the subject of decades of academic agreement—that is well laid out in the Seventh Circuit's decision in *Sunbeam*. By clearly stating that the effect of rejection is breach, using the language of Section 365(g) itself, this Court will align bankruptcy law with the non-bankruptcy policies of trademark and contract law. In so doing, it will also increase commercial certainty and protect the legitimate expectations of debtors and non-debtors alike.

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[13] The court below supplied no substantial authority in the trademark cases for the "vaporization" of trademark licenses arising from the breach of such licenses by grantors.

CONCLUSION

For the foregoing reasons, the Court should reverse the decision of the First Circuit.

Respectfully submitted,

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APPENDIX

APPENDIX

Amici, whose names and affiliations are set forth below, are law professors who study the United States' bankruptcy system and subscribe to the views stated in this amicus brief. They write solely based on their concern about the effect that the opinion below will have on this system. To the best of their knowledge, none of them have any financial interest in the outcome of this case:

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